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ABSTRACT

Since 1986 the Federal Employment Service in Germany has used the so-called "bridging allowance" to assist previously unemployed people in setting up their own businesses. This allowance is intended to guarantee the social security and subsistence of the person setting up the business during the start-up phase, until the young enterprise has become consolidated. Positive effects are expected for the labor market in two different respects. First, the person setting up the new business eases the strain on the unemployment insurance program with the step into self-employment. Second, if they are successful, the newly established businesses may result in further employment opportunities, thus contributing to the fight against unemployment. In the last 3 years about a quarter of a million previously unemployed people have set up their own businesses with the help of the bridging allowance. About 3 years after setting up their own business, 70 percent of those who received the bridging allowance are still self-employed. A further 5 percent still do the work for which they received the financial support, but as a secondary activity. At present, there is an average of one additional employee to each person who originally received financial support to start a business. The net effect cannot yet be determined, but looks to be positive. (Contains 51 references) (Author/KC)

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IAB labour market research topics

No. 30

Institut für Arbeitsmarkt- und Berufsforschung

Institute for Employment Research

Frank Wießner

The Bridging Allowance as an Instrument of Labour Market Policy - a Provisional Appraisal

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- **About three years after setting up businesses a good 70% of bridging allowance recipients are still self-employed**
- **Only 11% of former bridging allowance recipients are registered as unemployed at present**
- **Deadweight effects do not seem to play a major role**
- **As yet there is no sufficiently definite information as to the net effect for the labour market**

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Frank Wießner *

The Bridging Allowance as an Instrument of Labour Market Policy - a Provisional Appraisal

0 Abstract

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0 Abstract

Since 1986 the Federal Employment Service (Bundesanstalt für Arbeit) has used the so-called "bridging allowance" (Überbrückungsgeld) (§ 57 Social Code III) to assist previously unemployed people in setting up their own businesses. This allowance is intended to guarantee the social security and subsistence of the person setting up the business during the start-up phase, until the young enterprise has become consolidated - at least to some extent.

Positive effects are expected for the labour market in two different respects. Firstly the person setting up the new business eases the strain on the unemployment insurance scheme with his/her step into self-employment. Secondly, if they are successful the newly established businesses may result in further employment impulses, thus contributing to the fight against unemployment.

In the last three years alone about a quarter of a million previously unemployed people have set up their own businesses with the help of the bridging allowance. Not least the finance volume of some DM one billion per year with which the Federal Employment Service has supported those setting up the businesses is a reason to examine the utilisation of these financial resources and at the same time to make an evaluation of the support instrument.

At individual level the provisional appraisal of the bridging allowance so far is positive. About three years after setting up their own business a good 70% of those who received the bridging allowance are still self-employed. A further 5% still do the work for which they received the financial support, but as a secondary activity. On the whole at present there is an average of one additional employee to each person who originally received financial support to start up a business.

As regards the net effects of the support programme on the labour market or an effect on the economy as a whole, it is not yet possible to make any adequately sound assessments with the present level of knowledge. It can, however, be shown that the success of the measure is impaired only slightly by deadweight effects. A large part of the resources is obviously being used in agreement with the objectives.

1 Bridging allowance - an instrument of active labour market policy

1.1 Idea of assisting previously unemployed people in starting up businesses

When the federal government decided in 1985 to use unemployment insurance resources to assist previously unemployed people in setting up their own businesses, there was already experience available from a number of other OECD countries with corresponding programmes[1]. Earlier German labour laws had also already included similar regulations - although under completely different labour market conditions.

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[1] See Barker (1989a/b). At that time there were comparable support schemes for example in France, Spain, Great Britain, Australia, Canada and the United States.

Since 1 January 1986 the "benefits for assisting the entry into self-employment" have been established in law (§ 55a Employment Promotion Act; since 1.1.1998 § 57 Social Code III[2]). Taking as a basis the assumption that in particular the unemployed are subject to capital market restrictions and have to overcome particularly difficult obstacles and market barriers in their access to customary forms of financial support, it is this group of people that is being supported in setting up businesses by means of the so-called "bridging allowance". This bridging allowance is, however, explicitly not designed as start-up investment. It is intended more to guarantee the social security and the subsistence of the person setting up the new business during its start-up phase, until the young enterprise has become consolidated at least to a certain extent.

The fundamental idea of the support scheme is to create an alternative to unemployment for suitable unemployed individuals, this alternative being to work on a self-employed basis. This can result in positive effects for the labour market in two different respects: firstly the - previously unemployed - person setting up a business can ease the strain on the unemployment insurance with his or her step into self-employment. Secondly, additional employment impulses can result from the newly established enterprises if they are successful, thus contributing to the fight against unemployment. Both of these points presuppose that the people who receive the support do not displace other founders of businesses or enterprises which are already in existence when they enter the market.

1.2 Conditions for the allowance and the range of the benefit

Unemployed individuals who were out of work for at least four weeks before taking up work on a self-employed basis may apply for a bridging allowance. It has also been possible since 1993 for certain groups of people taking part in employment and training measures (short-time work, job-creation measures, structural adjustment measures) to apply for financial support for their intention to set up their own business. A further requirement for the allowance is a statement from an "expert body"[3] concerning the economic viability of the enterprise to be founded[4].

The bridging allowance is in principle granted for a period of six months. The amount of money granted is equivalent to the amount that the applicant last received as unemployment benefit or unemployment assistance or could have received if he or she had been unemployed. In addition - as with unemployment benefit - the employment office undertakes to pay the social security contributions. During a certain transitional period it is possible for the applicant to return to unemployment insurance[5]. Receipt of a bridging allowance is not counted towards eligibility for unemployment benefit.

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[2] Social Code, Part Three

[3] In particular Chambers of Industry and Commerce, Chambers of Trades, professional associations, financial institutions, tax advisors/accountants, auditors, tax agents, business consultants, lawyers (provided that they specialise in commercial law) are regarded as expert bodies.

[4] Economic viability means that following an appropriate start-up period, an adequate basis of existence is reached which can be expected to be permanent.

[5] Eligibility for unemployment benefit - and thus the possibility for bridging allowance recipients to return to unemployment insurance - remains in force for four years from the time it began (§ 147 Social Code III).

Exclusion from the allowance

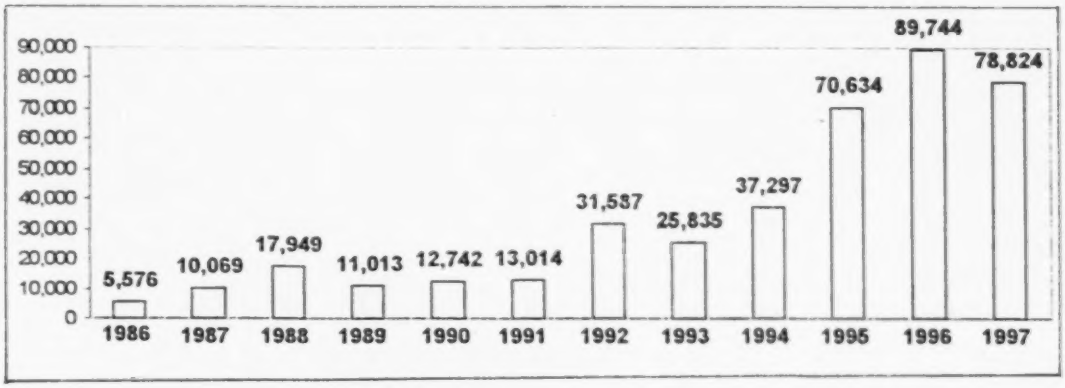
Only self-employed activities are supported by the bridging allowance. Nominally self-employed people[6] are excluded from the allowance. Also anyone setting up a business who terminated their previous employment relationship with the intention of subsequently becoming self-employed may not receive the allowance. Furthermore the allowance is not granted to applicants who have already been self-employed for some time as a secondary occupation. In the case of these people it is assumed that their subsistence is safeguarded during the start-up phase.

1.3 Utilisation of the support scheme since its introduction

As is shown clearly in *Figure 1a*, the number of cases of bridging allowance per year has increased notably in the past 12 years of its existence. Improved conditions have contributed to the increase in demand. In 1988 the allowance period was extended from its previous 13 weeks to a *maximum* of 26 weeks and at the same time the length of the stipulated period of previous unemployment was reduced from ten to four weeks.

In 1994 the conditions of the allowance were once again clearly improved. Since 1 August 1994 the bridging allowance has no longer been granted *"for a maximum of"* 26 weeks but *"in principle"* for a period of 26 weeks. The amount paid as bridging allowance is no longer *"a maximum of"* that paid as unemployment benefit or unemployment assistance, but is always the same amount. Demand for the bridging allowance continued to rise clearly in the last quarter of 1994 and in the following year the number of cases doubled.

Figure 1a:
Number of cases of bridging allowance granted 1986 - 1997[7]



Source: Federal Employment Service, Section Ib3

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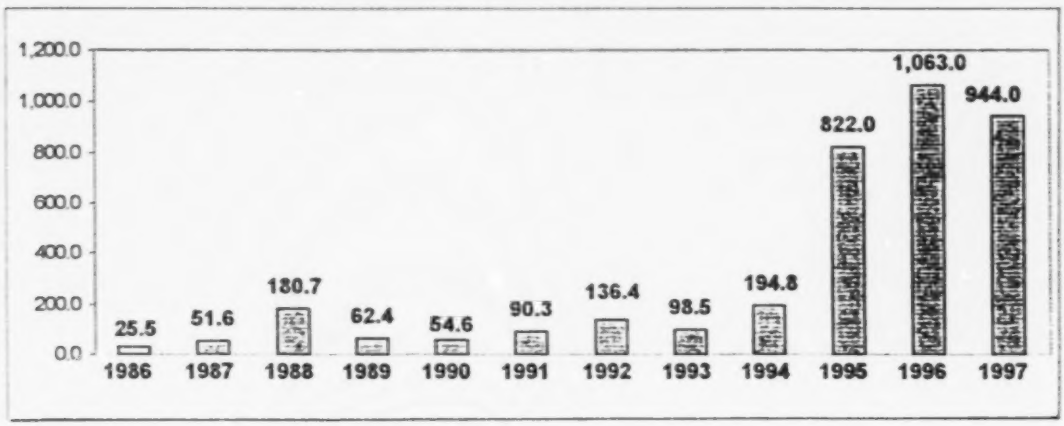
[6] In Germany the following are defined as nominally self-employed people: "... freelancers and self-employed sole traders who are personally and economically independent".

[7] 1986-1991 old federal *Länder*, from 1992 onwards the whole of Germany. In the new *Länder* the figure for allowances granted developed as follows: 1992: 18,445 cases, 1993: 14,173 cases, 1994: 15,108 cases, 1995: 23,942 cases, 1996: 27,943 cases, 1997: 24,681 cases.

As a result of the increasing attractiveness of this allowance it became increasingly difficult for the Federal Employment Service to regulate the volume of expenditure. As early as August 1988 - after the utilisation of the benefit had reached a first peak - the costs of the programme had increased so drastically that the amount and the duration of the allowance were restricted again temporarily. In the past similar measures[8] have frequently had to be used to ensure that expenditure did not exceed the planned budget.

Figure 1b shows the annual volume of expenditure on the bridging allowance scheme. Following initial experiences with the "new law" in the final months of 1994, the budget planned for 1995 was increased from the original DM 407 million to DM 907 million.

Figure 1b:
Annual volume of bridging allowance 1986 - 1997 in DM millions[9]



Source: Federal Employment Service, Section Ib3

As a result of the amendments of the last few years, the importance of the bridging allowance has changed. After the initial years when it was more supportive in nature for the individual, the average bridging allowance today is some DM 12,000 per person. As this is calculated individually, however, considerable deviations are possible here. In individual cases allowances of more than DM 20,000 have been granted.

The bridging allowance is also gaining in importance for the entire field of business start-ups in Germany: in the meantime about one in six or seven people setting up their own business does so with the aid of the employment office.

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[8] Thus for example the employment offices were authorised to reduce the duration of the allowance by up to four weeks in individual cases. Furthermore the access conditions were restricted by the employment offices by raising the minimum duration of the period of unemployment preceding the allowance. This period varied from region to region and could be up to 12 months (actually long-term unemployment) in individual employment offices.
It is not known whether similar regulatory mechanisms are also used for other instruments of active labour market policy.

[9] 1986-1991 old federal *Länder*, from 1992 whole of Germany.

2 Evaluation of the bridging allowance

2.1 Monitoring of success and analysis of the effect

In 1996 the total volume of the bridging allowance exceeded DM one billion. The interest in analysing the support of unemployed people who become self-employed and in gaining information as to the success of the instrument is correspondingly great.

The short-term objective was to obtain information on the structure of those granted the allowance as well as initial evidence regarding their destinations. Further indicators of success are for example the economic development of the newly established businesses - and thus also the personal economic situation of those who received the allowance, or additional employment impulses resulting from the new enterprises.

A comprehensive "success control" of the bridging allowance, however, raises a multitude of questions which in some cases can only be answered with very complex analyses. In order to be able to determine the actual level of relief for the labour market, it would be necessary to isolate the "net effects" of the support scheme. "Deadweight effects"[10], which can only be established empirically with some difficulty, correspond with these. A quantitative analysis of displacement[11] or substitution effects[12] caused by the support scheme on the supply side is even more difficult. Personal assessments by those who received the allowance themselves should be reinforced by expert assessments in the regional environment of the person granted the allowance. Such supplementary case studies could not be carried out so far however.

2.2 Structure of the study and methodical aspects

This study is divided into two phases. Firstly in the summer of 1995 document analyses were carried out of the cases of bridging allowance in a particular period in selected local employment office areas. In addition the subjects selected were asked for supplementary information during short telephone interviews. In the summer of 1997 a follow-up survey was carried out by post with the same people in the sample. Finally the subjects who had not taken part in the written survey were interviewed briefly by telephone once again.

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[10] Put very simply we speak of deadweight effects when the activities resulting from the utilisation of the bridging allowance would also have be undertaken without it. This alone is, however, not a sufficient definition. It can be assumed that in a number of cases even without the allowance the business start-ups would perhaps nevertheless have taken place, but on a smaller scale or at a later date. A further form of the deadweight effect could occur for example when unemployment is deliberately brought about in order to be able to participate in the support programme. Suspicion of deadweight also occurs in principle in the case of people starting businesses and applying for the allowance at the end of their entitlement to unemployment benefit, therefore practically extending the receipt of these benefits.

[11] We speak of displacement effects when an assisted business start-up displaces a previously existing enterprise from the market. A less serious form would for example be the reduction of profits of the established provider as a result of the entrance of further participants on the market.

[12] Substitution could occur for example between different support programmes with the result that a certain support programme is utilised at the expense of another programme. In the present case the bridging allowance could, in particular in the case of low start-up investments, replace other public funding assistance or loans from commercial banks instead of supporting them, as was intended. However, the opposite situation is also conceivable: then the extension of the bridging allowance would be funded at the expense of other active measures.

The basis of the study is a sample of 15 selected local employment office areas (11 in western Germany, 4 in eastern Germany) which were selected according to a multi-stage sample process.

In these selected employment offices all of the applications for bridging allowance granted between the beginning of 1994 and the middle of the second quarter of 1995 were evaluated[13]. The applications approved in the third quarter of 1994 were not included in the survey because the amendment to the law mentioned previously occurred in that period.

All in all 4486 cases were included in the study. 39% of these were from the new *Länder*. The study thus makes it possible to observe the course of new enterprises for a period of between about three years and a maximum of 45 months on average[14].

All in all 67% of the subjects returned the questionnaires. It was possible to interview a further 22% by telephone. Therefore almost 90% of the net sample is available for the study.

3 Basic information on the structure of the recipients

It is unfortunately not possible to include a detailed description of the structures of the bridging allowance recipients here. It is, however, necessary to present some fundamental points, in particular in order to compare various structural features with those who left unemployment and with the unemployed as a whole, as well as with regard to a possible selectivity of the allowance scheme.

The recipients of the bridging allowance became self-employed after an average of almost 36 weeks of **previous unemployment**. About 10% of the recipients took the step into self-employment after just the minimum period of four weeks. In contrast with this about a fifth of the recipients had been out of work for longer than a year and were thus long-term unemployed before becoming self-employed.

Almost a fifth of those setting up their own business had already taken part in other employment and training measures, such as job creation measures or courses of retraining, in the two years before receiving the bridging allowance.

Just under 70% of the bridging allowance recipients still had some **entitlement to unemployment benefit remaining** at the time when they took up their self-employed activity. 26% of these would still have been eligible for unemployment benefit for at least six months and just under 10% for as long as over a year.

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[13] In the whole of the Federal Republic during the period studied a total of 54,859 people received support in starting up a business in the form of the bridging allowance (population).

[14] The last business start-ups included in the study occurred in the middle of the second quarter of 1995 and were therefore 25 months before the reference date of the written survey.

The **average age** of the eastern German bridging allowance recipients is almost 40 and is thus about two years older than that in western Germany. The median of the age distribution is 38. Therefore the step into self-employment is still quite frequently taken even at an advanced age.

With regard to **school education** and **vocational qualifications** the bridging allowance recipients are clearly better qualified than the unemployed as a whole. However, the willingness to become self-employed might also in many cases be associated with certain minimum qualifications. On average overall less than 2% of those setting up a business had no school qualifications and less than 10% had no vocational qualifications. On the other hand more than a fifth held a degree from an institution of higher education (6.6% from a polytechnic, 14.7% from a university). Accordingly only one in three had previously been employed as a "clerical worker" or an unskilled worker. All the others had held higher positions, some of them in association with managerial and decision-making tasks. A small number of the recipients had also already been able to gather experience as a self-employed person (3.1%).

The **proportion of women** in both eastern Germany (35%) and western Germany (20%) is well below their respective proportions of the unemployed. The proportion of women who received the allowance is, however, roughly within the range of the proportion of women among the self-employed in general. The clearly higher proportion of women for the new *Länder* reflects the different employment patterns in eastern and western Germany.

Nine out of ten bridging allowance recipients founded new enterprises. Only a tenth of the recipients took over existing businesses. As regards the **branches of industry** in which the enterprises were founded a clear focus on the service sector stands out. In addition to a basic provision of simple services such as for example the sale of goods, the transport of goods, the cleaning, servicing, maintenance or repair of machinery and buildings, highly qualified services are also increasingly being provided.

4 Success of the bridging allowance scheme

The success of the bridging allowance has two sides. At individual level, remaining in self-employment or in employment in general is the central success criterion. Success in integrating into the regular labour market is one of the main tasks of active employment promotion (§ 7 Social Code III). In addition to this, data on the economic development of the enterprise for which the allowance was granted is also important as further yardsticks of success, as are additional employment effects.

The overall assessment of the effectiveness of the bridging allowance also depends, however, on its contribution towards easing the strain on the labour market. As the study has so far only had access to microeconomic aspects of success, definitive conclusions can not yet be drawn with regard to the significance of the support instrument at macro-level and in particular to its net effect for the labour market. At the present stage of the study it is not possible to put even a rough figure on the extent to which existing businesses have actually been displaced by assisted new businesses. As far as a further labour market effect, the so-called *deadweight*, is concerned, however, initial findings can already be presented in one of the following sections.

4.1 Destination of those who received the allowance

At micro-level the outcome for those who received the allowance about three years after becoming self-employed is quite positive, as can be seen from *Table 1*. Over 70% of those originally granted the allowance are still self-employed.

A further 12% - or two fifths of those who are no longer self-employed - are in employment covered by the social security system, one percent is in some other form of employment. A total of 11% of the subjects are registered as unemployed at the time of the survey, 2% of them without benefit entitlement. 1% of those who previously received the bridging allowance are taking part in further training and retraining measures. If some of the responses in the category "other" are added to this, which, however, also includes those who have gone into higher education or military service and such like, then at the time of the survey no more than 13% of the former bridging allowance recipients should have been taking advantage of unemployment benefits in any way.

In an **east-west comparison** there are at most marginal differences. In spite of the clearly poorer labour market situation in eastern Germany, the proportion of people there who are no longer self-employed and are now in employment covered by the social security system is approximately the same size as that in western Germany.

Gender-specific differences are visible, but are insignificant. Although men are somewhat more successful in self-employment than women, with 72% of them remaining in self-employment, compared with 67% of women, this is relativised by a proportion of 3% of women in maternity protection or on parental leave. The rate of those who registered as unemployed again is virtually the same for men and women.

Table 1:

Occupational situation of people who set up businesses with the help of a bridging allowance[1], after about three years (summer 1997)

	total		of these (in %)			
	absolute	in %	men	women	east	west
self-employed	2707	70.4	72.0	67.0	70.9	69.9
of these:						
• assisted business	2568	66.5	67.6	64.7	67.5	65.8
• other self-employed business	149	3.9	4.4	2.3	3.4	4.1
no longer self-employed	1139	29.6	28.0	33.0	29.1	30.1
of these:						
• employment covered by social security	461	12.0	12.4	10.8	11.7	12.2
• other form of employment	39	1.0	1.1	0.8	0.9	1.1
• family worker	12	0.3	0.2	0.7	0.3	0.3
• unemployed with benefit entitlement	333	8.7	8.4	9.1	9.3	8.2
• unemployed without benefit entitlement	77	2.0	2.1	1.7	1.4	2.4
• further training, retraining	53	1.4	1.3	1.7	1.5	1.3
• retirement/early retirement	31	0.8	0.8	0.6	0.4	1.1
• maternity protection/parental leave	29	0.8	0.0	2.9	0.8	0.7
• other	61	1.6	0.9	3.5	1.9	1.4
• no details given	43	1.1	0.8	0.9	0.6	1.4
No. of cases:	3846	3846	2815	987	2282	1561

[1] Start of allowance 1994/95

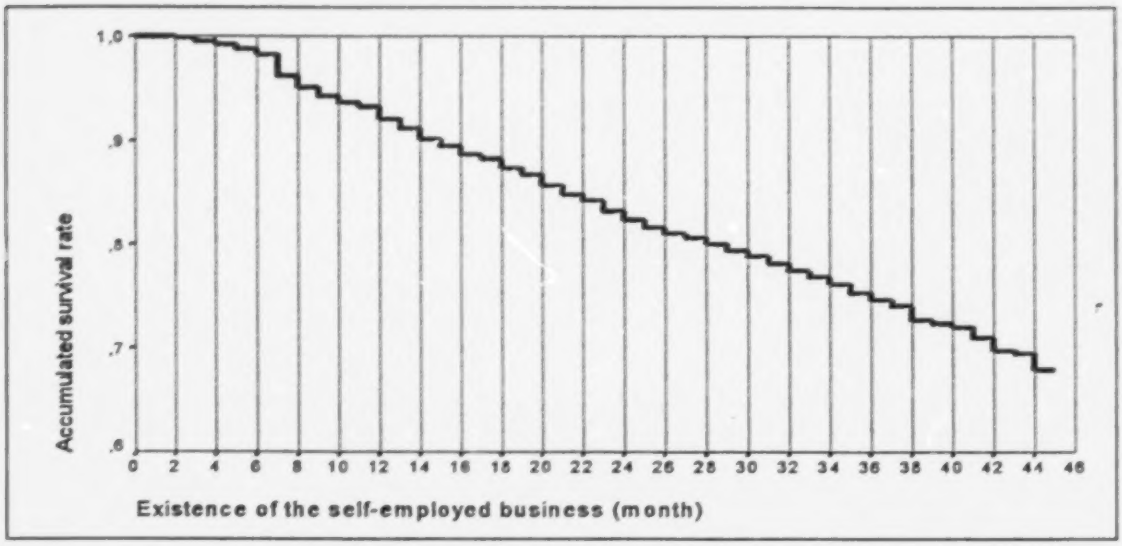
Failure of the assisted new businesses

Since the destination of those who received the bridging allowance was so far described at the time of the survey, the present data provides the possibility in addition to follow the developments over the course of time. The survival of the assisted enterprises - or their "deaths" - can be illustrated with the aid of the survival analysis method. The basis for the analysis is the length of time between an initial state ("taking up a self-employed activity ") and the occurrence of a certain event ("giving up self-employment").

The two most important functions that can be estimated with the aid of the survival analysis are the survival rate and the hazard rate. The survival rate versus time indicates the proportion of bridging allowance recipients who are still self-employed. The hazard rate gives information - to put it simply - about the probability of a person who received the allowance and was self-employed up to a certain point in time terminating his or her self-employment in the following period of time.

The event to be examined - abandonment of the self-employed activity - has occurred for only some of the cases so far in the time since the businesses were founded. For the remainder so far no statement can be made as to whether this event will yet occur after the reference date of the study.

Figure 2a:
Survival function (proportion of businesses still in existence)

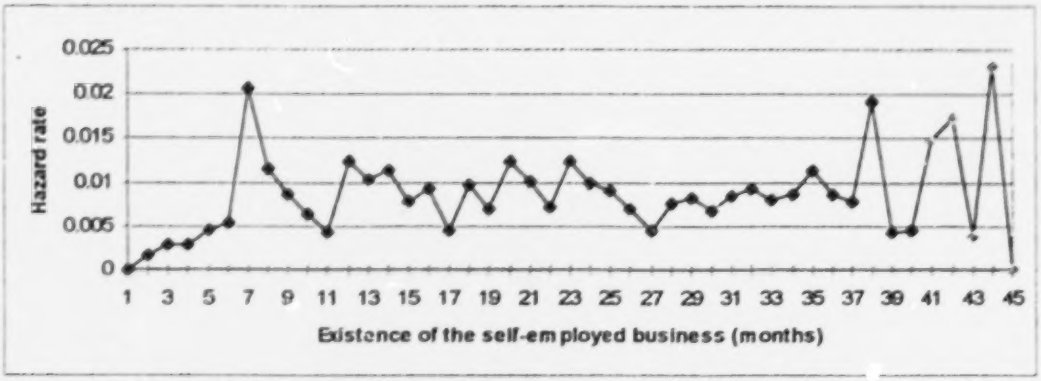

1,0
,9
,8
,7
,6
Accumulated survival rate
0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46
Existence of the self-employed business (month)

As can be seen from the survival rate, the survival probability for those who received the allowance one year after the business was started up was still over 90% and two years later was still more than 80%. Conversely upon more detailed examination it becomes clear that about 15% of all abandonments occurred as early as the first six-month period and thus in some cases while the bridging allowance was still being paid. Half of the cases of failure occurred during the first 18 months after the business start-up. After a period of slightly more than two years, three quarters of the businesses that will fail have already done so. After that the "critical phase" for the new businesses eases off and the enterprises obviously gradually reach less dangerous ground.

The risk of giving up a self-employed activity (*Figure 2b*) increases steadily at first, and reaches a maximum seven months after the business start-up - thus at the time when the bridging allowance has just expired. At this point in time the "business failure rate" per month (referring to those who were still self-employed in the previous month) is about 2.1%. After that the hazard rate falls at first, until about six months later, when a second "failure wave" occurs. In the following period when examined in terms of months, the function shows a slight wave-like development with a decreasing tendency[15].

[15] The unsettled course of the hazard function towards the end of the time axis probably occurred due to the fact that owing to the time of the business start-up there are only very few cases that have so far been able to cover this maximum possible period.

Figure 2b
Risk function (monthly risk of giving up the self-employed activity)



Reasons for giving up the self-employed activity

The main reasons given by the respondents for failing in or giving up self-employment were economic reasons or managerial deficits in the broadest terms. Purely technical weaknesses seem to play only a secondary role, however.

A lack of orders was given as the most common single reason. This could also be regarded as an indicator of latent commercial deficits. What lies behind this for example are conceptional weaknesses in the supply area - e.g. inadequate adaptation to the requirements of the market, no clearly defined spectrum of products or services etc. - or also difficulties in acquiring customers.

Financing problems arising during the start-up phase were often aggravated by customers' poor payment conduct and put both the founders of the business and the business plan additionally to the test.

In spite of positive reports from "expert bodies" - a formal access requirement for the bridging allowance - almost 14% of the respondents blamed an incorrect business plan (at least in part) for the failure of their businesses. In western Germany more businesses failed as a result of weaknesses in business plans than in eastern Germany. There are no further outstanding differences between eastern and western Germany.

4.2 Economic development

Besides the basic continued existence of the self-employed business, **sales development** is regarded as another important indicator of the economic success of enterprises. In view of any potential non-response attitudes in written surveys, the sales figures were not requested in DM figures but as relative changes against the previous year. The sales developments of the newly founded businesses can therefore only be shown in a relatively rough framework.

In 1996 one fifth of those who had remained self-employed were able to increase sales by up to 10% compared with the previous year. Almost two fifths (38%) recorded even higher sales

growth. About 30% were able maintain the sales of the previous year and just under 11% had to accept a drop in sales.

For the **1997 business year**, which was not yet over at the time of the survey, and which was thus the second or third full business year for the respondents, half of them were expecting further increases in sales, 28% of them even as high as over 10%. One third assumed they would be able to maintain the level of turnover of the previous year. However, 15% also expressed rather sceptical expectations and were reckoning with a drop in turnover. This gives reason to believe that not yet all of the businesses have found their firm place in the market.

In accordance with the courses of turnover which many of those who had set up a business described as positive, half of the businesses still in existence at the time of the survey were able to make **profits** as early as the business year of 1995[16]. Two thirds reported profits for 1996, and for the 1997 business year about three quarters of the self-employed were expecting a surplus in receipts. Accordingly two thirds of those who had received a bridging allowance put the time when the new businesses became economically viable at about one year after the business was set up.

Although these developments can be judged as positive in principle, at the same time they show that at least for some of the newly established businesses the consolidation phase is not yet concluded.

With regard to the **income situation**, the business founders are divided into two groups. Whereas just under a quarter of them report a "somewhat higher" income and about a tenth a "considerably higher" income in comparison with before (prior to the period of unemployment), the income of about half of them is "somewhat lower" (19.4%) or even "considerably lower" (31.0%). For 16.8% of these self-employed people their income situation has not changed as a self-employed person. In accordance with this, about two fifths of those still self-employed today reported that they, too, would not be able to support themselves with the income from their self-employed activity alone.

At least for this latter group the economic viability of the new business could be extremely questionable. It can be assumed furthermore that here - unless subsistence can be safeguarded by means of an additional income - there is a considerable risk potential for further cases of businesses being abandoned.

4.3 Employment impulses from the assisted new businesses

In addition to the destination of those who received the bridging allowance and are still in self-employment, a further important measure of success for the effect of the support scheme is the creation of further jobs by the newly established enterprises. Apart from the quite positive survival results at individual level, those granted the bridging allowance were also able to set additional employment impulses[17]. Therefore the support instrument creates not only self-

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[16] As a reminder: this sample covers businesses founded in 1994/95.

[17] At the present time it is again only possible to give gross figures concerning the newly created additional jobs (cf. also Section 2.1)

employment for the founder, but also acts as an employment multiplier. 45% of the respondents who were still self-employed reported that they had at least one employee[18] (57% of them have at least one employee in employment covered by the social security system; no differentiation according to full- or part-time). *Table 2* shows the extent of additional employment per 100 bridging allowance recipients after a total of three years, as well as a differentiation by gender and an east-west comparison.

The new businesses set up by male bridging allowance recipients show clearly more employees than those of female recipients. Obviously men tend to set up somewhat larger businesses. At the current stage of the study it is unclear, however, whether economic reasons are the decisive factor in this. Perhaps gender-specific differences regarding the spheres of activity or even the motives also affect the employment developments.

Table 2:
Additional employees per 100 bridging allowance recipients after an average of three years

	Total	men	women	east	west
Employees covered by the social security system	54	60	38	75	39
Working family members	7	7	6	6	7
Temporary employees/employees not covered by the social security system	32	35	36	20	41
Trainees	7	8	5	7	7
Total number of employees	100	110	85	108	94

Basis: People who originally received the bridging allowance

Eastern Germans who set up their own business were able to set stronger employment impulses than their western German counterparts. What is particularly notable here is the number of newly created employment relationships covered by the social security system, which is almost double the number created in western Germany. The western German bridging allowance recipients in contrast tend to employ more temporary staff or employees who are not covered by the social security system.

Over the course of time the number of additional employees compared with the time when the business was set up has increased almost five-fold and has doubled in the last two years. After a mean duration of three years in self-employment, an average can be calculated of one additional employee per person who was originally supported by means of the bridging allowance.

If solely the figure of those who are still self-employed today is taken as a basis of calculation, and the one-person businesses are taken out of the calculation, then there are on average 3.5 employees for each person who has remained in self-employment with additional employees. This calculation approach has as its basis the differentiation between business founders who become self-employed with the aim of employing themselves and "entrepreneurs" who have a clear growth objective in mind.

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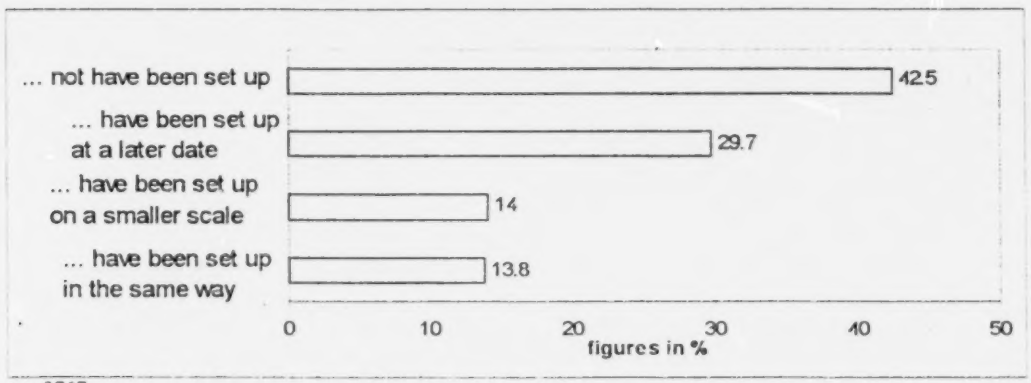
[18] This corresponds to just under a third of all those originally granted the allowance.

5 Labour market effects - estimates on the existence of deadweight effects

One of the questions that arise concerning assisting people to start up businesses using unemployment insurance resources is the issue of deadweight effects. Deadweight can be understood in the simplest terms as new businesses which would have come into being even without the bridging allowance. Deadweight effects can considerably diminish the (net) effect of the support scheme.

The answers to a hypothetical question asked on this matter, shown in *Figure 3*, give an initial orientation. Only 14% of the respondents reported that they would have become self-employed in the same way without the bridging allowance. Approximately the same number would have set up the business on a smaller scale, around 30% would not have taken the step into self-employment until a later date. More than two fifths of the bridging allowance recipients said they would not have set up their business without the allowance.[19]

Figure 3:
"When you think of the bridging allowance, what would you be most likely to say?"
Without the bridging allowance my business would...



n = 2767

The rough pattern of a single study item in terms of "What would have happened if ..." can, however, only partly take into account the complexity of the social reality. The low possibility of differentiation as well as not taking into account further aspects of the support scheme are disregarded in this "conventional" recording of deadweight effects[20]. The "deadweight effect"

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[19] In an international comparison of similar support schemes Wilson/Adams (1994) report the following estimates with regard to deadweight: Australia 39%, Denmark 56%, France 60%, Great Britain 42%, USA (Washington) 26.6%, USA (Massachusetts) 28.6%. A variety of reasons are given for this which originate in particular in the form of the support schemes and the particular prevailing conditions. On the basis of an econometric estimate, Meager (1995: p.17) considers it improbable, *"...that the deadweight effects in the German programme are above 20% in the first years"*.

[20] Distortion of responses with retrospective questions are a well-known phenomenon in social sciences. The quality of data generated in this way is subject to limitations which are often impossible to calculate. With regard to the validity of statements obtained in such a way, impairments must also be feared: for the subjects

phenomenon is certainly more complex and includes far more dimensions than such a relatively superficial study approach can record[21].

In order to obtain a more sensitive estimate of the importance of the support programme, a modified approach with an extended battery of questions was adopted. Here in a further stage of analysis the individual items can be brought together unproblematically into an "evaluation index on the bridging allowance".

In the written survey the subjects were confronted with the statements about the bridging allowance shown in *Table 3*, and asked to classify them on a scale of 1-5. The battery of items includes further aspects in the consideration of possible deadweight effects. Thus for example the allowance scheme also results in a positive labour market effect if an unemployed individual would (sooner or later) have become self-employed even without the bridging allowance but would not have survived the first few without the allowance.

Table 3:
Importance of the bridging allowance for starting up a new business (figures in %)

Statement	is not true				is true
	-2	-1	0	+1	+2
"Without the bridging allowance I would not have survived the first three months of self-employment"	14	9	18	22	37
"The bridging allowance safeguarded my subsistence and that of my family during the start-up phase"	9	6	13	29	43
"The support from the bridging allowance was of crucial importance for me in the initial phase of my self-employment"	6	5	12	28	49
"I had already had thought of becoming self-employed before I was made unemployed"	22	6	16	20	26
"I would have started my own business even without the bridging allowance."	22	12	25	18	23

n = 2883

As is easy to see, an agreement with the last two statements gives rise to the supposition that deadweight effects exist, whereas agreement with the first three statements points more towards the absence of deadweight effects.

The pre-requisite for a common evaluation in the context of a cumulative index[22] is internal consistency of the response behaviour. The reliability coefficient Cronbach's *alpha*[23] controls

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such questions can appear to be ambivalent and are thus far from the unidimensionality which is striven for from a methodical point of view.

[21] Cf. on this the introductory ideas in Section 2.1.

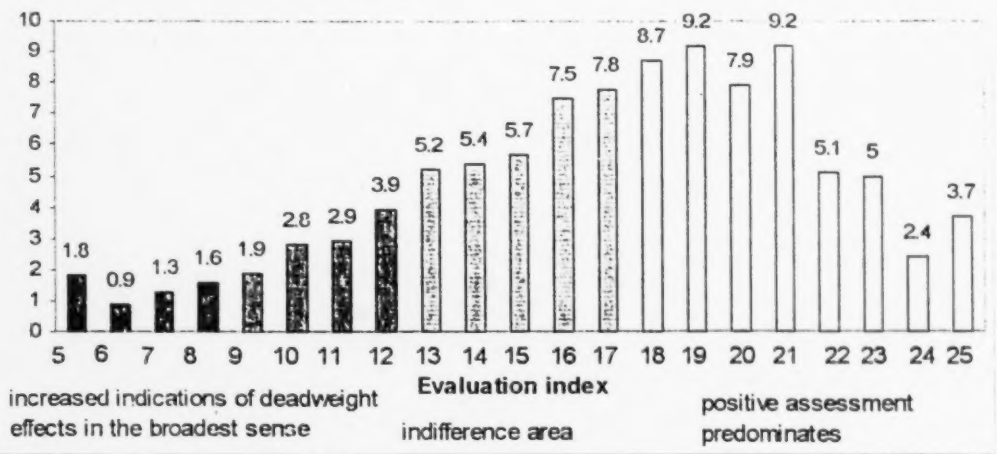
[22] For combining into a common index, the scales have to be recoded. For the first three items it is transformed to a points scale with values of 1 to 5. As the last two items in the battery point in the opposite direction, the points scale goes "backwards" from 5 to 1.

[23] The *alpha* coefficient is a specific form of factor analysis and indicates how well a linear combination of variables (the set of variables examined) depicts a single theoretical variable, namely the theoretical construct to be measured. In order to calculate *alpha* the variables to be examined are subjected to a factor analysis and,

for whether the respondents tend to answer the questions consistently or whether they oscillate in their statements. Satisfactory reliability can be assumed for the present α-value of 0.7033. The statements therefore point to a large extent in the same direction.

Figure 4 shows the distribution of the evaluation index I_B[24]. The index value 15 marks the middle of the range of the scale. This value divides the population into a two-thirds group with predominantly favourable indications and a remainder group of one third with less positive assessments.

Figure 4:
Evaluation index (values)



n = 2883

With regard to the problems involved in measuring, however, this should not be understood as a "demarcation line". The idea of an indifference area which can not be exactly demarcated and which groups around this middle value could be closer to reality. The further towards the right the study units are located, the more strongly the positive assessments of the support scheme predominate in the differentiated consideration on which this study is based. To the left of this indifference area there are more indications for the existence of deadweight effects (intensity shown by darker shading).

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weighted with the respective weight on the main factor, are added (linearly combined) to form a dummy variable. Then the variance of this linear combination is compared with the variances of the initial variables.

[24] The fundamental positive findings of the reliability test on the item battery permits the formulation of a cumulative index from the five original variables. As the indifference point on the 5-point scales is "3", this shifts to "15" for the index formed by addition.
Thus for the evaluation index I_B the following applies:
Range $W = \{5; 25\}$
$I_B < 15$ → increased indication of the presence of deadweight effects
$I_B > 15$ → lesser indication for the presence of deadweight effects
It must be pointed out explicitly that this is still simply a refined processing of relatively "rough" basic information, with which under the given circumstances only statements regarding trends can be derived. A more detailed determination of deadweight effects and their extent requires a number of more far-reaching analytical tasks.

It must be pointed out once more here that these estimations do not concern "convicted deadweighters" but they concern cases in which the indications of deadweight effects intensify.

6 Conclusion

The temporary provisional appraisal of the bridging allowance scheme shows positive results according to the information available on it so far. This applies at least for the individual level. It is not possible at present, however, to assess the net effect on the labour market, with the result that it is still too early for a concluding overall evaluation of the scheme. The temporary provisional appraisal must therefore still be regarded with certain reservations.

As an interim result it must be stressed that the promotion of taking up self-employment can constitute a way out of unemployment for some suitably qualified, motivated and talented unemployed individuals. At individual level the support instrument functions quite successfully, as is proven by the notable survival rates of the businesses set up by the bridging allowance recipients and also by the additional jobs created by the businesses. Also at individual level in a good number of the cases of bridging allowance there are concrete indications that lead one to expect a continuation of the favourable development of the assisted new businesses.

The "soft" indicators available so far on the utilisation of the support programme can refute to a large extent the fears of possible deadweight effects. Nevertheless consolidation studies on the use of the bridging allowance will not only be concerned with the effectiveness of the instrument at individual level and for the economy as a whole, but also in particular with its utilisation in agreement with the objectives. For differentiated evaluations of the support instrument the recipients of the bridging allowance would for example also have to be compared with comparison groups.

For a concluding evaluation, the effect of the bridging allowance scheme on the labour market as a whole must be examined even more closely. Unless displacement and substitution effects are examined more profoundly, it is not possible to rule out for example "revolving door effects" and inefficient utilisation of the resources from the scheme. In order to optimise still further the entire policy mix of active labour market policy, alternative uses of resources should be considered also with the aid of additional calculations. In principle the bridging allowance should not be isolated in this but should be regarded as competing with other public expenditure for active labour market policy measures.

In the context of causal analysis considerations on the effectiveness of current support schemes and the increasing of efficiency of future schemes it is essential to explore more precisely the reasons for the success and failure of new businesses. Besides the background information about the environment of the supported business start-ups, a large amount of which has already been presented in this provisional appraisal, in particular information about those people who started up a business but had left self-employment again at the time of the study also provide helpful information about how market access and consolidation can be facilitated by means of additional and supporting measures or in other cases how failures could be cushioned or avoided. The subject of subsequent stages of evaluation will therefore be to establish determinants of success and reasons for failure with the aid of multivariate analysis models. The

period of experience of those who had set up new businesses available in the context of the study so far, which was an average of three years in self-employment, provides initial clues as to how the relationship between opportunities and risks for newly established businesses can be further optimised.

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